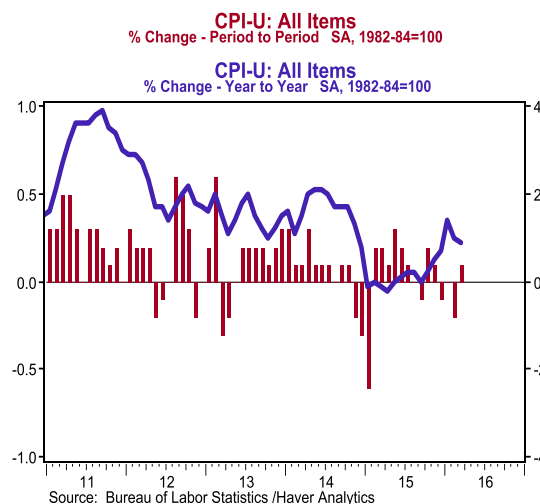


# March CPI

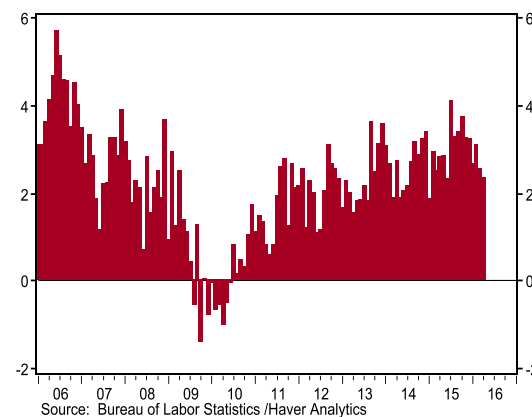
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- The Consumer Price Index (CPI) increased 0.1% in March, coming in below the consensus expected rise of 0.2%. The CPI is up 0.9% from a year ago.
- “Cash” inflation (which excludes the government’s estimate of what homeowners would charge themselves for rent) rose 0.1% in March and is up 0.4% in the past year.
- Energy prices rose 0.9% in March, while food prices declined 0.2%. The “core” CPI, which excludes food and energy, increased 0.1% in March, below the consensus expected 0.2% rise. Core prices are up 2.2% versus a year ago.
- Real average hourly earnings – the cash earnings of all workers, adjusted for inflation – rose 0.2% in March and are up 1.4% in the past year. Real *weekly* earnings are up 1.1% in the past year.

**Implications:** Consumer prices turned modestly higher in March after February’s decline, but the more important story is in the underlying details. “Core” consumer prices, which exclude the volatile food and energy components, rose for a 74th consecutive month in March and have shown acceleration over the past three- and six-month periods. Core prices are up 2.2% in the past year, but up at a 2.4% annual rate in the past six months and a 2.6% rate in the past three months. While we aren’t expecting a rate hike at the Fed meeting later this month, the consistent pace of “core” inflation above 2% – paired with continued employment gains – shows a hike would certainly be justified. The increase in the core CPI in March was led by housing rents and medical care. Owners’ equivalent rent, which makes up about ¼ of the CPI, rose 0.2% in March, is up 3.1% in the past year, and will be a key source of higher inflation in the year ahead. Energy prices rose 0.9% in March after three months of declines, as prices for gasoline, electricity, and fuel oil all moved higher. And given the continued rise in oil prices through the first half of April, this trend looks likely to continue into next month’s report. Excluding just energy, consumer prices are up 2.0% in the past year. In other words, as energy prices rise, the headline index will follow, and at a faster pace than many are expecting. Food prices declined 0.2% in March, led by falling prices for fruits and vegetables. One of the best pieces of news in today’s report is the 0.2% gain in “real” (inflation-adjusted) average hourly earnings. These earnings are up 3.1% at an annual rate in the past three months. As employment gains continue, expect wage gains to keep growing at a healthy clip. In other news this morning, new claims for unemployment benefits fell 13,000 last week to 253,000, marking 58 consecutive weeks below 300,000, the longest stretch in more than forty years. Continuing claims declined 18,000 to 2.17 million. Plugging these numbers into our model suggests payrolls will be up around 235,000 in April. Combined with core inflation running near the Fed’s target of 2%, expect a rate hike by mid-year.



**CPI-U: Owners' Equivalent Rent of Residences**  
 % Change - Annual Rate



<b>CPI - U</b>	<b>Mar-16</b>	<b>Feb-16</b>	<b>Jan-16</b>	<b>3-mo % Ch.</b>	<b>6-mo % Ch.</b>	<b>Yr to Yr</b>
<i>All Data Seasonally Adjusted Except for Yr to Yr</i>				<b>annualized</b>	<b>annualized</b>	<b>% Change</b>
<b>Consumer Price Index</b>	<b>0.1%</b>	-0.2%	0.0%	-0.2%	0.4%	0.9%
<b>Ex Food &amp; Energy</b>	<b>0.1%</b>	0.3%	0.3%	2.6%	2.4%	2.2%
<b>Ex Energy</b>	<b>0.0%</b>	0.3%	0.3%	2.2%	2.0%	2.0%
<b>Energy</b>	<b>0.9%</b>	-6.0%	-2.8%	-27.4%	-18.4%	-12.6%
<b>Food and Beverages</b>	<b>-0.2%</b>	0.2%	0.0%	0.1%	-0.2%	0.8%
<b>Housing</b>	<b>0.1%</b>	0.2%	0.1%	2.0%	2.0%	2.1%
<b>Owners Equivalent Rent</b>	<b>0.2%</b>	0.3%	0.2%	2.9%	2.9%	3.1%
<b>New Vehicles</b>	<b>0.0%</b>	0.2%	0.3%	2.0%	0.8%	0.4%
<b>Medical Care</b>	<b>0.1%</b>	0.5%	0.5%	4.5%	4.3%	3.3%
<b>Services (Excluding Energy Services)</b>	<b>0.2%</b>	0.3%	0.3%	3.1%	3.1%	3.0%
<b>Real Average Hourly Earnings</b>	<b>0.2%</b>	0.1%	0.5%	3.1%	1.9%	1.4%

Source: U.S. Department of Labor